

Ownership transition a Day-One priority

> Not putting a plan in place can lead to headaches, or worse, down the road.

Even successful firms are struggling with the challenges of ownership transition—a process that, when it fails, can threaten a business' viability.

“If you do not have an effective transition plan, the company is going to encounter

The Zweig Letter
HOT FIRM 2009
The Conference for Growing A/E Firms

tremendous challenges,” Sirish Samba, president

and CEO of MFRA / McCombs Frank Roos Associates (Plymouth, MN), a 100-person engineering, planning, surveying, landscape architecture, wetland services firm, said during a session of *The Zweig Letter* Hot Firm Conference in October in Las Vegas.

Samba wasn't exaggerating. He's still struggling to bring MFRA back from the brink of failure after a series of ill-fated moves taken by the previous stewards.

Gregory Frank, the former CEO, decided to retire in 2000 and pass the firm along to a group of four senior managers he had been grooming, Samba said. However, after an appraisal of the company, Frank decided to sell the business to an investor, which prompted three of the four managers to leave.

Exit Strategy Alternatives webinar

Most sole owners, majority owners, and partners of privately held A/E and environmental consulting firms are concerned how they will eventually exit from their firms. Many have delayed addressing the issue of ownership transition because of the steady growth and rewards they achieved during the country's building and construction boom over the last decade. But how about today? In the midst of a recession impacting all types of design firms, this webinar highlights the trends and tactics available to owners seeking a successful internal or external transition plan.

For more information on or to purchase a copy of this webinar recording, call 800-466-6275 log on to www.zweigwhite.com/zw-793.aspx.

Despite the leadership vacuum, others inside the firm—including Samba—stepped up and helped the business prosper. In 2005 MFRA changed hands again, sold this time to an equity firm. Samba said the equity firm was in the money business, not the A/E business, and a lack of clear leadership led to disaster. Debt piled up and cash flow faltered in a difficult economy. Samba, meanwhile, kept his head down and took on an increasingly relevant role within MFRA, enrolling in a cash management program and taking a whack at the firm's financial mess. In February 2008, when he became senior executive vice president, MFRA was operating in the black again.

“If you do not have an effective transition plan, the company is going to encounter tremendous challenges.”

Samba also convinced the private equity firm that maybe it should be in the A/E business. Bottom line, a pre-packaged bankruptcy that included the new owners taking on existing debt transferred MFRA to a core group of stakeholders on June 1.

“The company is not worth the debt it has on the books, but the potential is there,” Samba said about his faith in the business. “Everything that I got in equity now is in the company.”

Michael O'Brien, a principal with ZweigWhite who specializes in internal ownership transition consulting, said MFRA's story illustrates how tricky ownership succession can become. For example, O'Brien said, an owner's age should be taken into consideration, because owners who are near retirement age have fewer options, and potential buyers have more leverage. That problem is exaggerated when the next generation of leaders is not firmly defined and prepared to take the helm.

“You don't want to be stuck with that,” he said.

Don't delay it

With that in mind, David Watkins, principal at Arrington Watkins Architects, LLC (Phoenix, AZ), a 45-person architecture firm, said he started putting together an ownership succession plan soon after he opened the door for business in 1994.

Watkins and partner Lynn Arrington engaged a consultant to perform a valuation of the firm, and have also identified two people to sell stock to and six or seven others to be the next leaders—putting them through a leadership training program.

“It's been hugely successful,” Watkins said about the training program. “It's not one set of seminars that are going to make them leaders. It's just another step.”

Owners vs. leaders

The distinction between future owners and leaders is deliberate, Watkins said: While ownership rewards contributions, leadership rewards ability to run a business well. Owners don't have to be leaders, he said, and leaders don't necessarily have to be owners.

“I actually don't think you can run a company by committee,” he said.

Top managers should choose future leaders who are committed to their firm's core values, said Perry Shea, principal, Shea, Carr & Jewell, Inc. (Olympia, WA) a 22-person consulting engineering firm.

“For future leaders to come in, they need to have that foundation,” he said, adding that Shea, Carr & Jewell has among its core values a strong leadership team and open book management, for example.

O'Brien said it's important for firms to “layer your ownership structure around (their) culture.”

“To me, having been through all this, the financial part is the easy part. The hard part is figuring out who are the leaders,” Watkins said. “The mechanics of it is the easy part.” ■